



RECEIVED

SEP 20 1996

1850 M Street, NW, Suite 1100  
Washington, DC 20036  
Telephone: (202) 828-7452  
Fax: (202) 822-8999

Warren D. Hannah  
Director - Federal Regulatory Relations  
Local Telecommunications Division

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

**EX PARTE**

September 20, 1996

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W. Room 222  
Washington, D.C. 20554

RE: In the Matter of Federal-State Joint Board on Universal Service -  
CC Docket No. 96-45

Dear Mr. Caton,

Today, representatives of Sprint Corporation met with members of the Washington Utilities and Transportation Commission (WUTC) in Olympia, Washington to discuss the above referenced proceeding. Representing the WUTC were Ms. Lee Palagyi and Messrs. Tom Wilson, Tom Spinks, and Jeff Payne. Representing Sprint Corporation were Messrs. Mark Askins, Rod Thompson, and John Banks.

Sprint's April 12, 1996, proposals filed in the above referenced matter were discussed during the meeting. Also, the appropriateness of a Proxy Model such as the Benchmark Cost Model (BCM) filed by Sprint and US West, Inc. (joint sponsors), in September 1995 and the updated BCM 2 filed in July 1996, were discussed. The attached information was used during the meeting.

It is requested that this information be made a part of the record in this matter. Two copies of this letter, in accordance with Section 1.1206(a)(1) of the Commission's Rules and Regulations are provided for this purpose. Please call on the above number if there are any questions.

Sincerely,

Warren D. Hannah

Attachments

No. of Copies rec'd  
List A B C D E

022

September 20, 1996  
Mr. William F. Caton  
Page 2

**Distribution List:**

Ms. Lee Palagyi, WUTC, Olympia, Washington  
Mr. Tom Spinks, WUTC, Olympia, Washington  
Mr. Tom Wilson, WUTC, Olympia, Washington  
Mr. Jeff Payne, WUTC, Olympia, Washington  
Mr. Mark Askins, Sprint, Westwood, Kansas  
Mr. Rod Thompson, Sprint, Westwood, Kansas  
Mr. John Banks, Sprint, Westwood, Kansas

# ***SPRINT COMPREHENSIVE PLAN FOR UNIVERSAL SERVICE SUPPORT***

# *Goals of Universal Support Mechanisms (Section 254(b))*

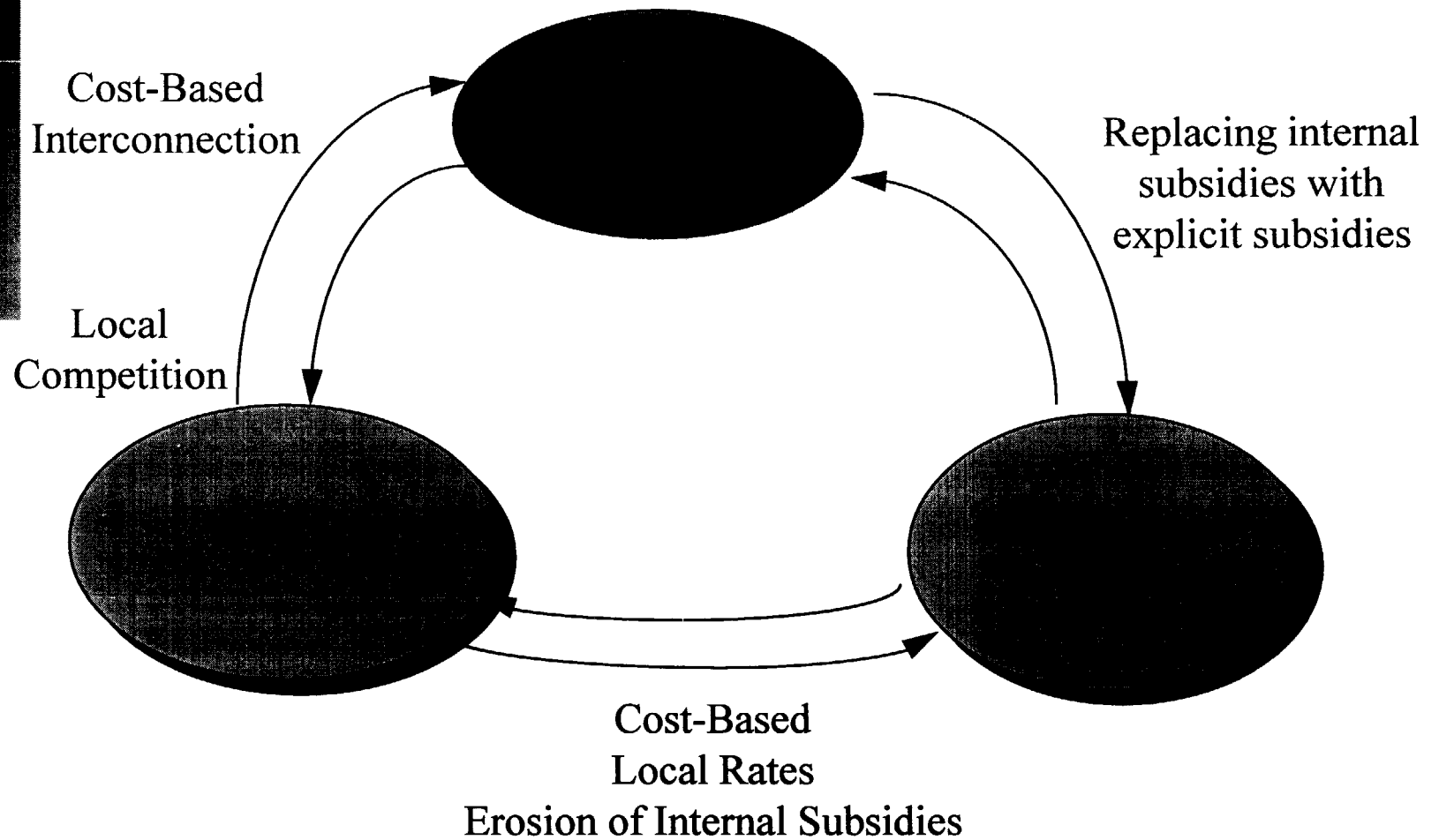
- ① **QUALITY AND RATES** - Quality services should be available at just, reasonable, and affordable rates.
- ② **ACCESS TO ADVANCED SERVICES** - Access to advanced telecommunications and information services should be provided in all regions of the nation.
- ③ **ACCESS IN RURAL AND HIGH COST AREAS** - Consumers in all regions of the nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.
- ④ **EQUITABLE AND NONDISCRIMINATORY CONTRIBUTIONS** - All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.
- ⑤ **SPECIFIC AND PREDICTABLE SUPPORT MECHANISMS** - There should be specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service.
- ⑥ **ACCESS TO ADVANCED TELECOMMUNICATIONS SERVICES FOR SCHOOLS, HEALTH CARE, AND LIBRARIES** - Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services as described in subsection (h).
- ⑦ **ADDITIONAL PRINCIPLES** - Such other principles as the Joint Board and the Commission determine are necessary and appropriate for the protection of the public interest, convenience, and necessity and are consistent with this Act.

# ***TELECOMMUNICATIONS ACT OF 1996***

Maintaining universal service support through internal “cross subsidies” is inconsistent with the telecom act, and unsustainable in a competitive marketplace

- Problems with embedding “subsidies” in LEC prices
  - Neither explicit nor targeted
  - Artificially low rates (for the subsidized services) are a barrier to competitive entry
  - Artificially high rates (for the services providing the subsidy)...
    - Provide incorrect price signals to potential entrants
    - Are unsustainable

# *The Trilogy*



# ***SPRINT UNIVERSAL SERVICE PLAN***

---

- Principles
- Services eligible for subsidies
- Determination of subsidy
- Costing standard
- Eligibility criteria for receiving the subsidy
- Implementation
- Funding
- Administration of funds

# ***SPRINT UNIVERSAL SERVICE PLAN PRINCIPLES***

---

## ■ Competitive Neutrality

- Should not impair competition
  - *All* carriers should contribute to USF on an equitable basis
- Subsidy funding should be portable
  - Available to *all* qualified providers of local service

## ■ Specific (targeted)

## ■ Predictable

## ■ Fully replace current internal (implicit) subsidy flows, as well as existing explicit subsidy funding



# ***SPRINT UNIVERSAL SERVICE PLAN SERVICE ELIGIBILITY***

- Residential services only
- Initial service definition
  - Local dial tone and ability to make local calls
  - Access to chosen long distance carrier
  - Access to emergency services
  - Single party service
  - Touch tone
  - Annual local directory
  - Directory assistance

## ***SPRINT UNIVERSAL SERVICE PLAN SUBSIDY DETERMINATION***

- Income-related subsidies
  - Lifeline, Link-up, and other explicit subsidy mechanisms to support low income subscribers would continue
- High cost subsidies
  - Available to subsidize basic residential service in areas where the costs of providing service exceed national and state standard for “affordable” rate

# ***SPRINT UNIVERSAL SERVICE PLAN COSTING STANDARD***

---

- The Benchmark Cost Model should be the basis for measuring the costs of providing services for USF purposes.
  - The BCM is a reasonable proxy for the economic costs of serving a particular area
- Advantages of the BCM
  - Based on objective, verifiable, public data and accepted network engineering standards
    - Cost results not distorted by historic accounting and depreciation policies
    - Does not require arbitrary allocations or disaggregations of existing investment to smaller geographic units
    - Avoids controversy over whether embedded costs represent “efficient” or “inefficient” management

# ***SPRINT UNIVERSAL SERVICE PLAN COSTING STANDARD***

## **Advantages of the BCM (continued)**

### **■ Competitively neutral**

- Subsidy funding (per subscriber) will be the same for all service providers
- The BCM is a proxy for the costs that *any efficient provider* would incur in providing service to a particular area
  - Subsidy amount not biased by an incumbent's embedded costs
  - Provides incentive for competitive entry into high cost areas
  - Provides incentive for efficiency
  - Provides incentive for innovation

# ***SPRINT UNIVERSAL SERVICE PLAN COSTING STANDARD***

---

## **Advantages of the BCM (continued)**

### **■ Disaggregation of costs by census block group (CBG)**

- More precisely identifies truly high cost areas
- Avoids competitive distortions inherent in using higher levels of aggregation (e.g.. exchange or study area) for USF purposes
  - Basing subsidies on averaged costs would not provide new entrants sufficient incentive to serve those areas where costs exceed the average (could lead to “cream-skimming”)

## ***SPRINT UNIVERSAL SERVICE PLAN DETERMINATION OF AMOUNT***

- The amount of subsidy provided for a CBG would be the difference between
  - The national benchmark price for basic residential service (i.e., the maximum rate determined to be “affordable”) and the
  - BCM-calculated cost for that CBG
- The national benchmark price should be set at least at the national average rate for basic residential service in urban areas, including the existing subscriber line charge.
- State USF plans could use the same methodology to the extent state repricing does not resolve all state-specific subsidies

# ***SPRINT UNIVERSAL SERVICE PLAN***

## ***DETERMINATION OF AMOUNT : EXAMPLE***

Assume:

### Federal Subsidy (per access line)

- |                            |      |      |
|----------------------------|------|------|
| 1. BCM cost                | \$30 |      |
| 2. FCC benchmark price     | \$20 |      |
| 3. Federal subsidy (L1-L2) |      | \$10 |

### State Subsidy (per access line)

- |                                      |      |     |
|--------------------------------------|------|-----|
| 4. State benchmark price             | \$15 |     |
| 5. State subsidy (if desired)(L2-L4) |      | \$5 |

# ***SPRINT UNIVERSAL SERVICE PLAN USF FUND SIZE AT ALTERNATIVE NATIONAL AFFORDABILITY PRICE LEVELS***

## **Summary Model Results National Total (millions)**

Annual Benchmark Cost	\$59,252
Aggregate support	
at \$20	\$14,666
at \$30	\$7,425
at \$40	\$4,259
average monthly cost	\$29.98



# ***SPRINT UNIVERSAL SERVICE PLAN***

## ***FUNDING ELIGIBILITY CRITERIA***

---

- USF funding will be available to both incumbent LECs and new entrants
- To qualify for USF funding, an eligible telecommunications carrier (ETC) must:
  - Be willing to serve the entire service area
  - Offer all of the services that are supported by the fund
  - Use their own facilities or a combination of owned facilities and resale of another carrier's facilities
- An ETC will receive support only where it provides service either over its own facilities or over resold facilities for which it pays cost-based rates
- USF support should be portable (when subscribers change their local service provider, the subsidy payment should then go to the new service provider)

# ***SPRINT UNIVERSAL SERVICE PLAN IMPLEMENTATION***

## ■ The expansion of USF support should

- Replace existing implicit and explicit subsidies
- Be revenue neutral to the incumbent LEC at time of implementation

## ■ Implementation steps

- Each incumbent LEC would quantify its net change in USF support (i.e., USF support under the new plan less USF support it received under the existing plan)
- The incremental USF funding would flow through, dollar for dollar, in reductions to services that provide subsidy:
  - CCLC
  - Transport RIC

## ***SPRINT UNIVERSAL SERVICE PLAN FLOW THROUGH EXAMPLE***

---

if	Subsidy based on national benchmark price =	\$100
and if	Existing USF =	\$5
then	Net increase in USF =	\$95

the resultant access subsidy reduction would be:

if total CCLC Revenues = \$80	
CCLC revenue reduction =	\$80
if total RIC revenues = \$20	
RIC revenue reduction =	\$15
(\$95-\$80)	
total access subsidy reduction =	\$95

## ***SPRINT UNIVERSAL SERVICE PLAN FUNDING***

---

- All providers of telecommunications services will pay into the fund based on billed revenues
- Collected as surcharge on customer bills
- Payments will be equitable and nondiscriminatory among carriers
- State funding (if desired by states) to be provided by all carriers providing intrastate services

## ***SPRINT UNIVERSAL SERVICE PLAN ADMINISTRATION***

- A neutral administrator will be appointed by the FCC and PUC to:
  - Annually update the fund
  - Collect funding dollars
  - Distribute funds to ETCs

# ***SPRINT UNIVERSAL SERVICE PLAN ADMINISTRATION***

---

Maintain database by CBG containing:

- Households eligible for support
- Support available per household
- Qualification of ETCs
- Households served by ETCs

# ***SPRINT UNIVERSAL SERVICE PLAN***

## ***SIZE OF FUND***

- Administrator will develop funding
  - Determine quantity of qualifying access lines by CBG
  - Sum CBGs to determine annual amount needed
  - Assessments will be made to all providers of telecommunication services based on revenues

# BENCHMARK

## COST MODEL 2



## **BENCHMARK COST MODEL 2**

### **PURPOSE OF THE MODEL**

- Identify High Cost CBGs
- Develop Benchmark Cost Range
  - Basic Single Line Service
  - Efficient Design
  - State-of-the-Art Technology
- Allow Evaluation of Multiple Proposals for High-Cost Support Targeting
- Serve as a Basis of Critique of Studies of Unbundled Network Elements
- **Model Does Not**
  - Develop Actual or Embedded Costs
  - Develop a Hyper-Efficient, Low Cost, Unrealistic “Fantasy Network”